HOW TO SPOT A RECESSION ~ ASIA'S NEW POWERS ~ DO YOU TRAVEL TOO MUCH?

MARCH 28, 1988

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# FORTUNE

# WHAT AMERICA MAKES BEST

## From Airplanes to Videotape, U.S. Companies Are the World's Top Competitors

*CEO Allen Jacobson of 3M: staying ahead by bringing out 200 new products a year*

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MARCH 28, 1988 VOL. 117, NO. 7

# FORTUNE

"He's one hell of a salesman. But he can't manage."

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"That guy's dead."

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"As we grow, we don't present a threat to you. We just buy more from you."

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"Ernie Fleischer has only one major fault. He thinks other people are as smart as he is."

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"The stock market could average 10%-a-year increases to the year 2000."

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"He came across as a weak, wishy-washy, uncommitted manager."

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**Cover: The reflective background, plus the stripes on Allen Jacobson's jacket and its insulation, are 3M products. Photo by Hans Neleman.**

# THE EDITOR'S DESK

JAY DICKMAN—MATRIX

*Writer Nulty gets all fired up at work.*

WHAT *really* goes on inside business? How does it work down close, and who are the people getting the job done? FORTUNE's writers and reporters give you an inside view, and so too do FORTUNE's photographers. One picture—of a new technological process, perhaps, or a corporate raider benignly at play—can be worth a thousand canned speeches or quarterly reports.

Business may not offer the flashy images of Yankee Stadium or Hollywood, but it can be a movingly visual subject. This belief is part of our heritage. Our very first issue, in 1930, contained Margaret Bourke-White's epochal pictures of subjects as varied as hog butchers and glass blowers. And look at some of the pictures in the current issue. You will see a startling image of a tractor being tested for noisiness in a huge sound room that looks like a cross between a concert hall and a high-tech lab. You will see six grown men grappling with one raw plank of wood, struggling to shape it into a piano. You will see a corporate raider sporting a cowboy hat and a black mask like some Sundance Kid. You will see 83 other pictures, from an early-morning commuter boat picking up workers on a Bangkok canal to the construction of an F-16 fighter jet.

To get these images, picture editor Michele McNally and her staff combed through thousands of photographs. Their mission, says McNally, is to "turn up the startling pictures that can stop readers in their tracks and entice them to read the story."

As soon as an article is scheduled, a picture researcher joins with the writer and editor to consider photo ideas. The researcher and McNally then match the assignment with the special talents of the more than 50 photographers FORTUNE fairly regularly calls upon. There is a vast difference between capturing, say, the glowing pictures of Asia's workers (by Robin Moyer for our February 15 issue) and the stark black and white images of America's underclass (by Mary Ellen Mark in our May 11, 1987 issue).

*Picture editor McNally (center) focuses on business with her staff (from left): Todd James, Christopher E. Green, Prudence Heisler, Maureen Duffy Benziger, and Eric Godwin.*

PETER BARNETT

Other situations call for other kinds of expertise, such as the ability to persuade a busy executive to climb out from behind the desk and reveal at least some corner of his personality to the camera. All too often a photographer gets only the briefest chance to pull off a shot. Investor Warren Buffett, for example, once limited our photographer to a single roll of film. Treasury Secretary James Baker stipulated that he would pose for exactly ten minutes. Even so, recalls McNally, "we got a great picture of Baker against a backdrop of first-run U.S. currency. And we were out of there in exactly 11 minutes."

McNally has a name for the special kind of photographer who can consistently produce top work under such pressure: She calls them her bulldogs. We have quite a few bulldogs among our writers, too. One is Peter Nulty, whose byline appears on two stories in this issue. While he was in the midst of writing a story examining whether business people travel too much, he flew to Colorado to report the story accompanying our picture portfolio on how professionals are taught to douse fires and handle hazardous chemicals at a train wreck. Instructors at the Association of American Railroads training center were so impressed by Nulty's bulldog questioning that they invited him to play the role of a pushy newspaper reporter distracting students at a mock disaster. We are confident that Nulty turned in a properly pestering performance.

Marshall Loeb

MANAGING EDITOR

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COMPETITION

# THE NEW POWERS OF ASIA

The rise of Pacific nations causes doomsayers to see calamity for the West. A closer look reveals new opportunities for the U.S. and Europe. ■ *by Louis Kraar*

PETER CHARLESWORTH—JB PICTURES

**Three-cushion shot:** *Japanese-designed Mitsubishi cars assembled in Thailand are driven aboard a ship bound for Canada.*

IN A FLASH, it seems, they have gone from scruffy, dependent countries to well-off producers of shoes, clothes, and transistor radios to wealthy powerhouses that appear to turn out the best of everything and threaten the economic well-being of the West. Can this be true? Will the next century really belong to Asia?

Certainly the region, defined here as the countries bordering the Pacific from Japan on the north to New Zealand 5,500 miles to the south (see chart, following page), is already a major economic force in the world. Japan's gross national product is more than 50% that of the U.S., and the Japanese economy is growing slightly faster. More important is the rousing growth of the four little tigers—Hong Kong, Singapore, Taiwan, and South Korea. By next year, according to the Organization for Economic Cooperation and Development, their total exports will reach 80% of Japan's.

Thailand is on the verge of becoming a tiger. Malaysia, the Philippines, Indonesia, and the People's Republic of China have great potential if they can solve internal problems. When the 21st century begins, the region may well account for more than 25% of the world's total GNP, vs. less than 30% for North America. The comparable numbers now are 20% vs. 28%.

The Rise of the East does not necessarily ensure the Decline of the West. This does not have to be a zero-sum game, despite what alarmists say. There is opportunity aplenty for the U.S. and Europe in an ever more prosperous Asia. Many Western companies already have plants there that send parts and finished products back home. A bit more than 50% of Singapore's exports to the U.S. are goods turned out by American companies. A wealthier Pacific region is a better market for all kinds of Western products. Says Lee Hsien Loong, Singapore's minister of trade and industry: "As we grow, we don't present a threat to you. We just buy more from you."

Then there is the moral dimension. Which country should we applaud: One like Singapore, where per capita income has risen from $2,810 to $7,673 in the past decade, unemployment is 2.8%, and almost everyone has a roomy, modern apartment? Or Burma, where per capita income is $200 a year and the economy is going backward after years of socialism? And which kind of country should we fear? Political stability flows from prosperity, not poverty.

Yet the doomsayers have some points. The region accounts for more than half the U.S. trade deficit, and the rise of Asia has hardly been a tidy, carefully controlled affair. Japan's brass-knuckles aggressiveness as an exporter is legendary. The insistence of many Japanese that anything Japan makes is superior to American products doesn't help. This view is also wrongheaded (see Managing).

Taiwan and South Korea have blithely pushed their U.S. trade surpluses to the point of pain. Koreans apparently believed they were doing what the U.S. wanted by earning foreign exchange to pay off the country's huge external debt. Some Korean executives wonder out loud why Americans, who fought a bitter war on their behalf, are not willing to help out now by accepting a lopsided trade balance. The laid-off worker in Ohio or South Carolina who thinks goods from Asia are to blame doesn't see it that way.

Rising Asian exports have triggered fear and anger in Washington and in the Common Market. Washington plans by January 1 to eliminate the tigers' duty-free privileges, which were originally designed to help poor countries. Richard Gephardt, a little-known Democratic Congressman from Missouri, has become a presidential contender largely on the strength of strident attacks on Asian trade policies. He struck a nerve with his contention that Americans would have to pay $48,000 for the modest little Hyundai auto, instead of less than $6,000, if the U.S. applied the same duties and local taxes that South Korea does. (The actual figure is closer to $30,000 and includes heavy taxes the Koreans levy on their own cars.)

The task for the West will be getting beyond the fear that has resulted from some Asian excesses to the very real opportunities that beckon. If the West does sink in the face of the rising East, it will be due more to its own mistakes than to actions of the Pacific countries. One of those mistakes would be failing to participate vigorously in Asian markets. *continued*

The task for the West will be getting beyond the fear that has resulted from some Asian excesses.

P & G BOWATER—MAGE BANK

**Singapore's skyscrapers** *signal its status as an emerging global financial center.*

Viewed as one huge trading bloc, the Pacific indeed looks scary. But this is no homogeneous region, and within its complexity are several trends that ought to be beneficial to the West. Japan has begun to moderate its dependence on exports by stimulating domestic demand. Though the pace is excruciatingly slow, it is bound to quicken even if politicians lose their nerve and try to go back to the old policy. Younger Japanese will keep pushing. With no memories of war or of rebuilding Japan, they are shorter on sacrifice and longer on consumption than their elders.

Increasingly Japan's market is being supplied by other Asian countries. In many cases consumer goods come from Japanese companies that have moved factories offshore in pursuit of lower costs, just as U.S. manufacturers have done in Taiwan and Singapore. But color TVs, VCRs, and microwave ovens are also pouring in from companies in the four tigers and Thailand. The more the tigers sell to Japan, the less they will drive up the blood pressure of Richard Gephardt and his brethren.

REPORTER ASSOCIATE *Wilton Woods*

THE OTHER good news for American business is that ambitious nations like Singapore and South Korea are eager for joint ventures that will help pull them up the technological ladder. To cite one example, government-owned Singapore Technology Corp. invested $5 million in Sierra Semiconductor, a California startup with proprietary technology for custom chips. That led to a $40 million joint venture in Singapore. The numbers may not be large, but the pattern is being duplicated again and again.

American companies already have a major presence. Apple, for instance, makes all of its popular IIe computers in a highly automated plant in Singapore, where labor accounts for only 2% to 3% of manufacturing costs. Some parts are made in Singapore, but many others are shipped in from neighboring Asian countries and from suppliers in the U.S. and Europe. General Motors and Ford have joint ventures with Korean automakers to build subcompact cars for the fast-growing local market and for export to America. IBM makes computers for the Japanese market in Japan (see Corporate Performance). But many of its U.S. products contain components from plants in Hong Kong and Taiwan.

Japanese companies invested an estimated $6 billion in various countries in the region last year, up from $2.3 billion the previous year, and the pace is quickening. Aiwa, a consumer electronics company, makes about half its

## HOW THE COUNTRIES OF THE PACIFIC RIM STACK UP

| COUNTRY | POPULATION in millions | GROSS NATIONAL PRODUCT Per capita | Total in billions | Avg. annual growth rate over 5 years |
|---|---|---|---|---|
| **AT THE TOP** | | | | |
| JAPAN | 122 | $19,371 | $2,395 | 3.9% |
| AUSTRALIA | 16 | $12,051 | $195 | 3.7% |
| NEW ZEALAND | 3 | $9,595 | $32 | 2.2% |
| HONG KONG | 6 | $7,673 | $44 | 7.3% |
| SINGAPORE | 3 | $7,673 | $20 | 5.0% |
| TAIWAN | 20 | $4,823 | $95 | 9.1% |
| SOUTH KOREA | 42 | $2,849 | $120 | 10.1% |
| **RISING FAST** | | | | |
| THAILAND | 54 | $898 | $48 | 4.9% |
| **POTENTIAL STARS** | | | | |
| MALAYSIA | 16 | $1,833 | $30 | 3.3% |
| PHILIPPINES | 62 | $577 | $33 | −0.7% |
| INDONESIA | 175 | $401 | $67 | 3.6% |
| CHINA | 1,062 | $349 | $377 | 10.3% |
| **AT THE BOTTOM** | | | | |
| NORTH KOREA† | 21 | $1,175 | $23 | N.A. |
| BURMA† | 39 | $200 | $8 | 4.7% |
| VIETNAM† | 62 | $175 | $9 | N.A. |
| CAMBODIA† | 7 | under $100 | N.A. | N.A. |
| LAOS† | 4 | $45 | $0.2 | N.A. |

PATRICK WARD—WEEKER PICTURES

**Malaysia's capital,** *Kuala Lumpur*

audio products in Singapore and ships 30% to Japan. The rest are sold in the local market and throughout the world. Sony has dispersed production of many consumer products, including compact disc players, among seven Asian nations. Toyota is gearing up in Thailand to make dies and jigs for pressing auto-body panels at 40% of the cost back in Toyota City. Minebea, one of the first Japanese companies to move production offshore, makes 98% of its ball bearings for the world market, including Japan, in Thailand and Singapore.

In Thailand alone, the number of investment applications by Japanese companies has nearly quadrupled since 1986, to 200 projects worth $353 million. Says Nimit Nontapunthawat, chief economist of the Bangkok Bank in Thailand: "It used to be that the Japanese built plants here only so they could avoid tariffs and sell in the local market. Now they build here because it's cost-effective."

Another favorable trend hardly noticed in the U.S. is that the countries Americans often fear most—the four tigers—are taking some helpful steps. When the dollar plunged against the yen, the South Korean won went down pretty much in step. Now, under pressure from Washington, Korea is allowing the won to strengthen, which will make U.S. products more competitive there. The tigers are also cracking open their markets a bit. In Taiwan, 8,000 U.S. cars were sold last year, an eightfold increase over the year before. South Korea (with an average urban family income of $12,000 annually) has the biggest middle class in Asia outside Japan. Both countries should become attractive consumer markets.

Though lumped together in the West, the four tigers are very different places. All they really have in common is their super growth rates, an average of nearly 8% annually for the past five years. Singapore and Hong Kong, both city-states, are probably the only genuine free-traders on earth. They thrive

Toyota is gearing up in Thailand to make jigs for pressing body panels at 40% of the cost back in Toyota City.

| GROSS DOMESTIC PRODUCT Percent from manufacturing | LITERACY RATE | FORTUNE RATINGS Receptivity to foreign investment | Political stability | Income distribution | OUTLOOK |
|---|---|---|---|---|---|
| 29% | 99% | C- | A | A | The shift to a more consumer-based economy, just now getting under way, should speed up. |
| 17% | 99% | A- | A | A | The lucky country will run out of luck if it can't create internationally competitive industries. |
| 22% | 99% | A- | A | A | The Labour Party is rapidly loosening state control of the economy, promising faster growth. |
| 22% | 88% | A | A- | B- | Look for a slowdown caused by political uncertainty; China takes over from the British in 1997. |
| 27% | 86% | A | A | A | A tightly controlled press keeps the lid on, and investors often lack timely business information. |
| 45% | 92% | A | A- | A | Enmity against the mainland is softening, but total reconciliation is still decades off. |
| 30% | 92% | B+ | B | A- | The region's growth champ must prove it can handle democracy as well as industrialization. |
| 21% | 91% | A- | B | C+ | Exports of manufactured goods and processed food are creating Southeast Asia's next NIC. |
| 20% | 73% | B | C | C | Ethnic tension and bitter political rivalries are putting brakes on a resource-rich economy. |
| 25% | 86% | B | C- | D+ | The potential is still there. And so are the Communist insurgency and political disunity. |
| 14% | 74% | C | B | C | Burdened with a huge foreign debt and shrinking petroleum revenues, progress will be slow. |
| 34% | 69% | C | B | * | Ideology is making the march toward modernization a long one. But China keeps on trudging. |
| N.A. | 85% | F | B- | * | Reliance on exports of arms and terrorism will bring increasing isolation to North Korea. |
| 10% | 78% | D- | B | * | Downgraded by the U.N. from developing status after years of socialism, progress is doubtful. |
| N.A. | 84% | C- | B | * | New foreign investment law is most liberal of any Communist country, but no one is rushing in. |
| N.A. | 75% | F | D- | * | Still torn by civil war and Vietnamese occupation, it will be an economic shambles for years. |
| N.A. | 84% | F | C | * | Sleepy Laos is at peace, but its economy shows no signs of perking up under Communist rule. |

†Estimated figures from latest data available. *By one measure, income is well distributed in most Socialist and Communist countries. Nearly everyone is poor. N.A. Not available

SOURCES INCLUDE MORGAN GUARANTY TRUST CO., THE WORLD BANK, THE OVERSEAS DEVELOPMENT COUNCIL, AND GOVERNMENT AGENCIES.

as international manufacturing and banking centers. Korea and Taiwan have concentrated on industrial development, sacrificing domestic consumption and spending on social welfare in the process.

Korean workers called a violent halt to their days of self-denial in a series of strikes last year. The result was pay raises averaging around 20%.

NOW KOREA and Taiwan are changing. Korean workers called a violent halt to their days of self-denial in a series of strikes last year. The result was pay raises averaging around 20%. The increases hardly strained the system; productivity rose 10% for the year. Political rioting and a tumultuous election late last year have given way to a period of calm under newly elected President Roh Tae-Woo. Korea appears to be successfully carrying out its first peaceful leadership change.

Taiwan ended martial law last July and is starting to invest in pollution control and public transportation. More encouraging was the orderly transfer of power early this year after the death at 77 of President Chiang Ching-kuo, Taiwan's second president and son of the legendary Chiang Kai-shek.

As rising wages and strengthening currencies push the tigers out of labor-intensive industries, their biggest challenge is finding new things to do. Taiwan is the most vulnerable. Its currency has appreciated 36% against the dollar since September 1986. Warns one cabinet member: "A lot of small businesses will be shut down this year." Manufacturers of shoes and textiles are moving to Thailand and the Philippines.

**Full-grown in 50 days,** *these chickens raised in Thailand will be exported to Japan.*

Simultaneously, Taiwan is getting into more sophisticated industries. Most dramatically, Stan Shih, 43, a charismatic engineer and entrepreneur, exports a full line of personal computer clones and peripherals under his own brand name, Acer. Shih's company, Multitech, has made a deal with Texas Instruments to assemble and service Multitech machines in the U.S. That's quite a role reversal, because Taiwan firms usually produce computers for American companies and put U.S. brand names on them.

South Korean companies have forged similar alliances with American partners. Their primary goal is access to U.S. technology. Goldstar relies on a joint venture with AT&T for semiconductor research. Daewoo has teamed with a flock of Western companies, including Northern Telecom of Canada and the Sikorsky Aircraft division of United Technologies.

THAILAND is on its way to being the next Asian NIC, or newly industrializing country. More politically stable than many of its Southeast Asian neighbors, it has become a magnet for foreign investment, both from the U.S. and Japan (see Personal Investing). The military-dominated regime of Prime Minister Prem Tinsulanond has been in power for eight years. Despite a few coup attempts by military factions, the Thais are exceptionally unified by a popular monarchy and Buddhism.

An unbroken history of independence has left the Thais free of colonial hang-ups. Perhaps for that reason, Thailand has managed to make the most of the entrepreneurial vigor of its ethnic Chinese by treating them as Thais, not aliens or second-class citizens. Says a Thai corporate executive: "There are obvious political problems in the Philippines, Malaysia is torn by ethnic tensions between its Chinese and Malays, Indonesia has a lousy work ethic and serious corruption, and

ANDREW SALMON/SIPA

**The future** *is represented by fiber-optics production at Samsung in South Korea.*

Singapore has a labor shortage. Where else can investors go?"

Plentiful labor and flexible regulations allow factories to operate around the clock. Says Makoto Ikeda, director of Minebea's operations in Thailand: "Productivity is higher in our plants here than in Japan because the workers are only about 20 years old, much younger than in Japan." Working for wages of under $3 a day, industrious Thais are turning out Nike shoes, Arrow shirts, semiconductors, and toys. The country's only serious drawbacks are a dearth of supporting industries and congestion in Bangkok. The Thai capital has some of the worst traffic jams on earth.

With its tolerant culture that embraces serene Buddhist temples as well as licentious nightspots, Thailand is also a favorite destination of vacationers. It earned over $1.7 billion from tourism last year, almost twice its foreign exchange from rice exports.

From its lush farmland, Thailand gets a cornucopia of agricultural exports. It sells Japan tons of frozen chickens produced by farms that look like assembly lines. Thailand is a major supplier of canned pineapple to the U.S., much of it produced by Dole, the American food processor. The Thais are also the largest suppliers of canned tuna to the U.S., even though most of it is caught far from Thailand.

While foreign investment has been a major factor in Thailand's rise, the country has produced some dynamic enterprises of its own. Dhanin Chearavanont, 49, has quietly built a small family feed business called Charoen Pokphand into an international group with 12,000 employees that operates in 12 countries and had sales last year of $1.7 billion. CP Group runs a high-tech chicken operation that exports to Japan and Europe. Chearavanont plans to mass produce pork, in a joint venture with Oscar Mayer of the U.S., and shrimp, with help from Mitsubishi of Japan. The company also has a joint venture in China with Continental Grain of the U.S.

Thailand's largest exporter of manufactured goods is another local group of companies called Saha-Union, which has diversified from textiles to Nike shoes. Damri Darakananda, 55, started the business in 1961 as a joint venture with YKK of Japan to make zippers, but insisted on using his own brand-name, Venus. He expanded into thread, buttons, and plastic items—then bought out YKK. Saha-Union is an IBM computer dealer as well and holds the Computerland franchise in Thailand. Says Darakananda: "We're thinking ahead. Korea and Taiwan first exported textiles, then moved to electronics and computers. That's the direction we want to go."

OTHER NATIONS in the region, of course, have much economic potential. Unleashing the energies of over one billion Chinese could create a new industrial powerhouse and a mammoth market. The realities of doing business in the People's Republic, however, can be discouraging. When an Australian investor in the new Ramada Renaissance Hotel in Guilin tried to prevent stealing by workers, the government accused him of violating the employees' human rights. Despite well-publicized reforms, the country has hardly gone capitalist. Almost all prices remain under state control, and party bureaucrats regularly meddle in factory management. Says William Colby, former director of the Central Intelligence Agency who is now an international lawyer: "China will not play a major role in the world economy for the foreseeable future."

Not surprisingly, Asian businessmen, especially ethnic Chinese, are better than Westerners at carving out niches in the People's Republic. Some 30 textile plants in South China are

Working for under $3 a day, industrious Thais turn out Nike shoes, Arrow shirts, computer chips, and toys.

**The past** *is handwork in Hong Kong.*

LINCOLN POTTER

PETER CHARLESWORTH—JB PICTURES

**Commuting in Bangkok:** *Water taxis avoid the world's worst traffic jams.*

Malaysia, Indonesia, and the Philippines could become booming economies, but the day seems far off.

owned by investors in Taiwan in deals funneled through Hong Kong. The Nationalist regime in Taiwan still officially prohibits such investments but has been willing to look the other way. South Korean companies are increasing their trade and investment with China too, by way of Hong Kong.

Three resource-rich Southeast Asian nations—Malaysia, Indonesia, and the Philippines—could become booming economies, but the day seems far off. Malaysia is a leading exporter of rubber and palm oil. The government has tried to expand beyond raw materials into heavy industry with little success. State-owned auto and steel industries have lost heavily. The biggest problem is tension among ethnic Malays, about half the population, and Indians and Chinese, who make up the rest. Prime Minister Mahathir Mohamad has been pushing an affirmative action program that, among other things, is designed to give Malays a 30% stake in all enterprises. Since most Malays lack capital and business experience, the state winds up buying into companies on their behalf.

Indonesia has long relied on revenues from Pertamina, its state-owned oil company, to support the country's 170 million people spread over 6,000 islands. In the process, it acquired some wasteful habits. Over the years, President Suharto has given monopolies to relatives and friends for the import of steel, plastics, cement, and other basic items. The result: unnecessarily high prices for raw materials. A recent survey of U.S. investors conducted by a regional business group gives Indonesia an unfavorable rating compared with other countries in Southeast Asia. To Suharto's credit, he turned over management of the notoriously corrupt customs service to Société Générale de Surveillance, a Swiss survey company.

THE PHILIPPINES has yet to recover economically from the Marcos years. President Corazón Aquino has been seeking foreign investment and some is trickling in. But Communist insurgents in the countryside, political feuding, and pervasive corruption remain big distractions. Aquino herself has survived at least five coup attempts. Most shocking, the country's sluggish bureaucracy has prevented it from spending a backlog of over $1 billion in foreign aid.

Above all, the top performers of the Pacific are demonstrating that countries can adapt and grow by being part of the international economy. Nothing symbolizes that better than Vietnam, of all places, seeking foreign investors to help reinvigorate its backward economy. As Singapore Prime Minister Lee Kuan Yew puts it, Vietnam won its war, but lost the peace, while the NICs "have succeeded in creating more prosperous and more equal societies." The West should stop being afraid of the Pacific challenge and get down to business in a new frontier. F

J. MAI LLOYD

**Beaming in Taiwan:** *A happy marriage starts in the photo studio.*